



**RISK
ADVISORY
UPDATE**

BENEFITS OF FRANCHISE AUDIT

INTRODUCTION TO FRANCHISE AUDIT

Franchise audit entails a meticulous examination of various facets within a franchise network, including financial records, operational procedures, marketing strategies, and adherence to franchisor standards. The primary objective is to identify potential areas for improvement, ensure consistency across franchise locations, and protect the brand's reputation. Some common types of franchise agreements are as follows:

1. **Single-Unit Franchise Agreement:** This is the most basic and common type of franchise agreement. It grants the franchisee the right to operate a single unit or location of the franchise business.
2. **Multi-Unit Franchise Agreement:** In this type of agreement, the franchisee is allowed to operate multiple units of the franchise within a specified territory or over a defined period. It could be a development agreement, where the franchisee commits to opening a certain number of units within a specified timeframe.
3. **Area Development Agreement:** Under this agreement, the franchisee is granted the right to develop and operate multiple units within a designated geographic area. The franchisee may be required to meet certain development milestones within a specified timeframe.
4. **Master Franchise Agreement:** In a master franchise agreement, the master franchisee is given the right to develop and sub-franchise the brand within a specific territory or region.

BENEFITS OF IMPLEMENTING FRANCHISE AUDIT

Implementing franchise audits offers several valuable benefits for both franchisors and franchisees. Some of the key advantages include:

1. **Implement brand standards:** Publishing standards and training programs do not ensure the brand standards will be followed. Merchandising, service, security, and safety standards are most likely to be met when franchisees know there will be multiple checks and verifications.
2. **Compliance with franchise agreements:** Franchise audits help ensure that franchisees are adhering to the standards, policies, and procedures set forth by the franchisor. This ensures consistency across all franchise locations and helps protect the integrity of the brand.
3. **Continuous learning:** Store employees may be well-trained and have all the right answers but enhancing customer experience is a continuous process. Audit help assess employees' skills and strengths on a regular basis and serve as a learning opportunity for them.
4. **Excellence in operation:** Operational audits evaluate the efficiency of various processes within the franchise. By identifying inefficiencies or best practices, the franchisor can disseminate valuable insights to all franchisees, leading to optimized operations.
5. **Quality Assurance:** An audit helps track and prioritize non-conformances for a given food or beverage product and decide on actions that need to be taken to resolve them faster. Problems with product quality can lead to customer and public relations problems. Analyzing trends based on non-compliance/corrective action (NC/CA), corrective action/preventative action (CAPA), and customer requests and scoring the nonconformances using a

quality management system can help determine which quality issues to address first.

6. Builds knowledge base: An audit can uncover hidden points of product and process weakness by collecting detailed, robust data. This will help resolve future quality challenges.
7. Ensures brand alignment: Franchisees might have different preferences and priorities depending on their experience and sensibilities. There is a need to ensure that core standards and programs that drive a brand's strategy are implemented uniformly. Audits help with this as they align head office expectations with actual ground conditions.
8. Ensures customer satisfaction: Operators are brand ambassadors, and if one operator fails to meet the brand's standards, it can hurt the bottom line of all other operators. Franchisee audits help ensure that customer service standards are maintained at every location.
9. Attracts franchisees: A brand that prioritizes execution attracts both potential franchisees and clients. Multiple-unit franchisees typically invest a tremendous amount of resources like trade shows and dedicated websites- to attract new franchisees. Potential franchisees are more likely to invest their life savings and time in a brand they consider to be stable and efficient.
10. Monitor sales under-reporting: It is a common practice for franchisees to under-report sales, as doing so lowers their royalty fees. Franchise audits are important to verify the franchisee's sales/royalty reports and reconcile them with Epos data to highlight variances.

In summary, franchise audits play a vital role in maintaining operational excellence, ensuring compliance, and promoting the success and longevity of franchise businesses. It is a proactive approach that benefits all stakeholders involved in the franchise ecosystem.

DISCLAIMER:

The information contained herein is prepared based on the information available on the public domains. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of this information. Reader should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.

CONTACT US:

DPNC GLOBAL LLP



Windsor Grand, 15th Floor, Plot No.1C,
Sector-126, Noida – 201303, India



+91.120.6456990



dpnc@dpncglobal.com



<https://www.dpncglobal.com/>

FOLLOW US ON

